



City of Atlanta, Georgia

Comprehensive Annual Financial Report

For the year ended December 31, 2003

SHIRLEY FRANKLIN

Mayor

Richard J. Anderson, Chief Financial Officer

Notes to the Financial Statements - Continued

Other Information

L. Pension Plans and Other Employee Benefits

Pension Plans

The City maintains one agent multiple-employer defined benefit pension plan, entitled the General Employees' Pension Plan, two single-employer defined benefit pension plans, entitled the Firefighters' Pension Plan and the Police Officers' Pension Plan, and one single-employer defined contribution pension plan, entitled the General Employees' Defined Contribution Plan. The funding methods and determination of benefits payable were established by the legislative acts creating such plans, as amended, and in general, provide that the pension funds are to be accumulated from employee contributions, City contributions, and income from the investment of accumulated funds. The plans are administered by separate boards of trustees which include an appointee of the Mayor, the Chief Financial Officer, a member of City Council, and members elected from active and retired employees.

Prior to July 1, 2001, all permanent employees of the City, excluding sworn personnel of the Police and Fire Departments and including employees of the Board of Education who are not covered under the Teachers Retirement System of Georgia, were eligible to participate in the General Employees' Pension Plan. In addition, certain Atlanta Board of Education (the "Board") employees, employed prior to July 1, 1979, also participate in the City's General Employees' Pension Plan (the "Plan"). The City has no obligation to pay any costs related to retirement benefits of employees of the Board. The financial information herein relates only to City obligations for City employees.

Effective July 1, 2001, all new, permanent employees of the City, excluding sworn personnel of the Police and Fire Departments, are only eligible to participate in the newly created Defined Contribution Plan. During 2002 persons employed prior to July 1, 2001 were given the option of transferring to the New Defined Contribution Plan. As of December 31, 2002, employees previously participating in the General Employees' Defined Benefit Plan did not have the option of transferring to the new Defined Contribution Plan. Sworn personnel of the Police and Fire Departments are eligible to participate in the Police Officers' and Firefighters' plans, respectively.

Complete financial statements for all Plans, except the newly created General Employees' Defined Contribution Plan, can be obtained at the following address:

City of Atlanta
68 Mitchell Street, S.W.
Suite 1600
Atlanta, Georgia 30335

Separate financial statements have not been prepared for the General Employees' Defined Contribution Plan.

Defined Benefit Plans

The City's defined benefit plans provide retirement benefits based on the average of the highest 36 months earnings based on the following percentages:

- General employees - 2% for each year of service.
- Firefighters – 2% for each year of service prior to March 31, 2001 plus 3% for each year of service subsequent to March 31, 2001.
- Police Officers – 3% for each year of service to a maximum of 26.67 years.

Notes to the Financial Statements - Continued

L. Pension Plans and Other Employee Benefits, continued

Normal retirement, after 15 years of service, is available at age 60 for City employees and at age 55 for Police and Fire employees. Cost-of-living increases are awarded annually, up to a 3% maximum increase. Partial vesting percentages based on years of creditable service and provisions for early retirement are included in the plans. Benefits also may be payable at termination, death, or disability.

All modifications to the pension plans must be supported by actuarial analysis and receive the recommendations of the City Attorney, the Chief Financial Officer, and the boards of trustees of each plan. Each pension law modification must be adopted by at least two-thirds vote of City Council and approved by the Mayor.

In addition, the City has been given special constitutional authority by the State to supplement benefits for retired employees as long as such adjustments are funded by the City.

The City's practice is to have actuarial valuations of its defined benefit pension plans performed every two years by an enrolled actuary. The membership at the latest actuarial valuation date of January 1, 2003, in the three defined benefit plans and related current year payrolls are as follows (dollars in thousands):

| | <u>General Employees</u> | <u>Firefighters</u> | <u>Police Officers</u> | <u>Total</u> |
|----------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------|----------------------------|---------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 3,058 | 740 | 970 | 4,768 |
| Current active employees: | | | | |
| Fully vested | 1,383 | 458 | 496 | 2,337 |
| Partially vested | 1,516 | 246 | 631 | 2,393 |
| Nonvested | <u>1,208</u> | <u>149</u> | <u>396</u> | <u>1,753</u> |
| Total Membership | <u>7,165</u> | <u>1,593</u> | <u>2,493</u> | <u>11,251</u> |

The payroll and covered payroll for the year ended December 31, 2003 are as follows:

| | | | | |
|------------------------------------|------------------|-----------------|------------------|------------------|
| Total current year payroll | <u>\$156,382</u> | <u>\$43,614</u> | <u>\$ 72,790</u> | <u>\$272,786</u> |
| Total current year covered payroll | <u>\$145,238</u> | <u>\$38,826</u> | <u>\$ 65,722</u> | <u>\$249,786</u> |

Notes to the Financial Statements - Continued

L. Pension Plans And Other Employee Benefits, continued

Funding Policy

The City's funding policy for its defined benefit plans is to contribute a percentage of each plan's covered employee payroll as developed in the actuarial valuation for the individual plan. Active participants are required to contribute 7% of base pay (or 8% if participant has a covered beneficiary). The City's contribution percentage is the actuarially determined amount necessary to fund plan benefits after consideration of employee contributions. The City makes an additional contribution of 1% of payroll, which effectively decreases the employees' required contribution percentage to 6% (or 7% if participant has a covered beneficiary), but has no effect on the overall required contribution. The City is not obligated to continue the 1% supplemental contribution for any specified period of time.

The actuarially determined annual required contribution amount is the sum of the annual normal cost (determined under the entry age normal actuarial cost method) and the amortization of the unfunded actuarial accrued liability as a level percentage of future payrolls (over 40 years from January 1, 1979). The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the actuarial accrued liability. The required contribution percentages, developed in the most recent actuarial valuations for the plans, to cover pension liabilities and the actual 2003 contribution amounts are (dollars in thousands):

| | <u>General Employees</u> | <u>Firefighters</u> | <u>Police Officers</u> |
|-------------------------------------------------------------|------------------------------|---------------------|----------------------------|
| Normal cost | 12.16% | 29.18% | 30.87% |
| Amortization of the unfunded actuarial accrued liability | <u>18.02</u> | <u>19.36</u> | <u>18.46</u> |
| Total required contributions as a percentage of payroll | <u>30.18%</u> | <u>48.54%</u> | <u>49.33%</u> |
| 2003 actual employee contributions: | | | |
| Dollar amount | \$10,534 | \$2,685 | \$ 4,651 |
| Percent of covered payroll | 7.3% | 6.9% | 7.1% |
| 2003 actual City contributions: | | | |
| Dollar amount | \$29,649 | \$9,417 | \$15,907 |
| Percent of covered payroll | 20.4% | 24.3% | 24.2% |

With respect to the General Employees' Pension Plan, which is a multiple-employer plan, the City's actuarially determined contribution required above is only that of the City's portion.

The actual City contributions shown above include amounts used to fund retiree supplemental cost of living increases and other minimum benefits. These amounts are components of the City's contributions for purposes of meeting its actuarially determined funding requirements.

Notes to the Financial Statements - Continued

L. Pension Plans And Other Employee Benefits, continued

Annual Pension Cost and Net Pension Obligation: The City's annual pension cost and net pension obligation for the current year and each of the two preceding years were as follows (dollars in thousands).

| <u>Year</u> | <u>Annual Pension Cost</u> | <u>% of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|------------------------------------|-------------------------------------|---------------------------------------|
| General Employees: | | | |
| 2001 | \$31,107 | 72.2 | \$8,647 |
| 2002 | 30,910 | 100 | - |
| 2003 | 30,615 | 100 | - |
| Firefighters: | | | |
| 2001 | 9,438 | 100 | - |
| 2002 | 12,248 | 100 | - |
| 2003 | 9,681 | 100 | - |
| Police Officers: | | | |
| 2001 | 14,200 | 100 | - |
| 2002 | 20,148 | 100 | - |
| 2003 | 15,062 | 100 | - |

The City uses the results of its biennial actuarial valuations of its pension plans to determine the two succeeding years' contributions requirements. The actuarial cost method used for funding purposes and to calculate the actuarial accrued liability is the Entry Age Normal Cost Method. This method is one of the approved methods for such plans in Georgia, and provides for contributions estimated to be a level percentage of future payroll. The unfunded actuarial accrued liability for funding purposes is amortized over a closed period of 40 years from January 1, 1979 as a level percentage of estimated future payroll, in accordance with State of Georgia guidelines. The net pension obligation could not be distributed to the various proprietary funds and is thus all recorded as long-term debt in the government-wide financial statements. Other actuarial assumptions used to perform the most recent (January 1, 2002) calculations for funding purposes are:

| | |
|-------------------------------------|------------------|
| Rate of return on investments | 8% per year |
| Projected salary increases for: | |
| Inflation | 5 % per year |
| Merit or seniority and productivity | .7-5.5% per year |
| Postretirement benefit increases | 3% per year |

Notes to the Financial Statements - Continued

L. Pension Plans And Other Employee Benefits, continued

The following schedule (derived from the most recent actuarial valuation reports) reflects accounting policies, liabilities, and funding provisions for the City's three plans as of December 31, 2003:

| | <u>General Employees</u> | <u>Firefighters</u> | <u>Officers</u> |
|-------------------------------------------------------------------------|------------------------------|----------------------------|----------------------------|
| Basis of accounting | Accrual | Accrual | Accrual |
| Asset Valuation: | | | |
| Reporting | Fair Value | Fair Value | Fair Value |
| Actuarial valuation | Fair Value | Smoothed 5 Year Average | Smoothed 5 Year Average |
| Internal Loans | None | None | None |
| Nongovernment individual Investment In excess of 5% of net assets | None | None | None |

Defined Contribution Plan

The City's General Employees' Defined Contribution Plan provides funds at retirement for employees of the City and in the event of death, to provide funds for their beneficiaries, through an arrangement by which contributions are made to the Plan by employees and the City. The current mandatory contribution requirement of the City is 6% of employee payroll. Employees also make a pretax contribution of 6% plus have the option to contribute amounts up to the amount legally limited for retirement contributions. All modifications to the Plan, including contribution requirements, must receive the recommendations of the City Attorney, the Chief Financial Officer, and the board of trustees of the plan. Each pension law modification must be adopted by at least two-thirds vote of the City Council and approved by the Mayor.

All new employees, hired after July 1, 2001, who previously would have been enrolled in the General Employees' Defined Benefit Plan, were enrolled in the General Employees' Defined Contribution Plan. During 2002, persons employed prior to July 1, 2001 were given the option to transfer to the Defined Contribution Plan. As of December 31, 2003 there were 1,111 participants in the Defined Contribution Plan.

Employee contributions for the year ended December 31, 2003 were \$4,178,180 and employer contributions were \$3,597,333 (inclusive of amounts transferred in from General Employees' Defined Benefit Plan).

The Defined Contribution Plan uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices and there were no nongovernmental individual investments that exceeded 5% of the net assets of the Plan.

Notes to the Financial Statements - Continued

L. Pension Plans And Other Employee Benefits, continued

Postretirement Benefits

In accordance with a City ordinance, the City provides certain health/dental care for retired employees, their dependents, and their beneficiaries. The City also provides life insurance for retired employees and their dependents. These benefits are funded on a pay-as-you-go basis. Substantially all employees may become eligible for these benefits if they reach retirement age, as defined, or are totally disabled while working for the City. Currently, 3,894 retirees meet the eligibility requirements. The City contributes 75% of the premium cost for the least expensive health care provider coverage and contributes \$4.10 per thousand of the premium cost for a retiree's life insurance coverage in amounts ranging from \$1,000 to \$10,000. The City does not contribute to the cost of dependent life insurance. The cost of retiree health/dental care and life insurance benefits is recognized as premiums are paid to the private insurers and such costs totaled \$17,543,773 in 2003.

Deferred Compensation Plan

The City has adopted a deferred compensation plan in accordance with the 1997 revisions of Section 457 of the Internal Revenue Code. The plan, available to all City employees, allows an employee to voluntarily defer up to 25% of his/her gross compensation, not to exceed certain limits per year. Each participant selects one of three providers to administer the investment of the deferred funds. Administrative costs of the plan are deducted from the participants' accounts. The plan assets are held in custodial accounts for the exclusive benefit of the plan participants and their beneficiaries, and are therefore not included in the City's financial statements.

M. Risk Management

Self-insurance

The City is self-insured for workers' compensation and general claims liabilities. The City pays for such claims as they become due. These claims liabilities are accounted for in the General Fund and the applicable Enterprise Funds. Claims generated by a governmental fund expected to be paid subsequent to one year are recorded only in the government-wide financial statements. The City's workers' compensation liability is calculated by an outside actuary. Liabilities are reported when it is probable a loss has occurred and the amount can be reasonably estimated including amounts for claims incurred but not yet reported.

CITY OF ATLANTA, GEORGIA

Required Supplementary Information

Schedule of Funding Progress (Amounts in thousands)

| <u>Valuation Date</u> | <u>Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Percentage Funded</u> | <u>Unfunded Accrued Liabilities</u> | <u>Current Year Covered Payroll</u> | <u>Unfunded AAL as a Percentage of Covered Payroll</u> |
|---------------------------|------------------------|------------------------------------------------------|------------------------------|---------------------------------------------|-------------------------------------------------|------------------------------------------------------------------------|
| General Employees: | | | | | | |
| 01/01/98 | \$590,739 | \$ 808,374 | 73.1 | \$217,635 | \$155,605 | 139.9% |
| 01/01/00 | \$703,381 | \$ 920,409 | 76.4 | \$217,028 | \$177,754 | 122.1% |
| 01/01/02 | \$726,180 | \$1,059,876 | 68.5 | \$333,096 | \$175,752 | 187.8% |
| Firefighters: | | | | | | |
| 01/01/98 | \$223,575 | \$297,349 | 75.2 | \$73,774 | \$34,679 | 212.7% |
| 01/01/00 | \$289,054 | \$322,370 | 89.7 | \$33,316 | \$38,797 | 85.9% |
| 01/01/02 | \$326,620 | \$370,291 | 88.2 | \$43,671 | \$39,447 | 110.7% |
| Police Officers: | | | | | | |
| 01/01/98 | \$296,516 | \$384,074 | 77.2 | \$87,558 | \$57,878 | 151.3% |
| 01/01/00 | \$384,083 | \$419,439 | 91.6 | \$35,356 | \$67,330 | 52.5% |
| 01/01/02 | \$448,676 | \$541,209 | 82.9 | \$92,533 | \$68,056 | 135.9% |

The City uses the results of its biennial actuarial valuations of its pension plans to determine the two succeeding years' contributions requirements. The actuarial cost method used for funding purposes and to calculate the actuarial liability is the Entry Age Normal Cost Method. The unfunded actuarial accrued liability for funding purposes is amortized over a closed period of 40 years from January , 1979 as a level percentage of estimated future payroll. The actuarial value of assets is determined, for the General Employees' Pension Plan, using the market value, and for the Police Officers' and Firefighters' Pension Plans, using a smoothed five years averaged market value. Other actuarial assumptions used to perform the most recent calculations for funding purposes are:

| | |
|-------------------------------------|-------------------|
| Rate of return on investments | 8% per year |
| Projected salary increases for: | |
| Inflation | 5% per year |
| Merit or seniority and productivity | 0.7-5.5% per year |
| Postretirement benefit increases | 3% per year |

Fiduciary Funds

General Employees' Defined Benefits Pension Fund - To account for the operations of the Defined Benefits pension plan covering general officers and employees of the City.

General Employees' Defined Contribution Pension Fund - To account for the operations of the Defined Contribution pension plan covering general officers and employees of the City

Firefighter's Pension Fund -To account for the operations of the pension plan covering fire fighting employees of the City.

Police Officer's Pension Fund -To account for the operations of the pension plan covering sworn police employees of the City.

CITY OF ATLANTA, GEORGIA
Pension Trust Funds

Combining Statement of Plan Net Assets
December 31, 2003
(In Thousands)

| | Pension Trust Funds | | | | Totals |
|------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------|-----------------------|-----------------------|-------------------------|
| | General Employees' Defined Benefit | General Employees' Defined Contribution | Firefighters' | Police Officers' | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 3,313 | \$ - | \$ 43,085 | \$ 35,920 | \$ 82,318 |
| Securities lending collateral investment pool | 194,709 | - | 43,645 | 63,124 | 301,478 |
| Investments | 681,382 | 10,916 | 277,527 | 408,685 | 1,378,510 |
| Other receivables | 223 | - | 2,419 | - | 2,642 |
| Due from other funds | 2,648 | 7,571 | 4,188 | 1,512 | 15,919 |
| Total assets | <u>\$ 882,275</u> | <u>\$ 18,487</u> | <u>\$ 370,864</u> | <u>\$ 509,241</u> | <u>\$ 1,780,867</u> |
| LIABILITIES, FUND BALANCES, AND NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 290 | \$ - | \$ 88 | \$ 292 | \$ 670 |
| Due to other funds | 14,036 | - | 2,654 | 884 | 17,574 |
| Liability for securities lending agreement | 194,709 | - | 43,645 | 63,122 | 301,476 |
| Total current liabilities | <u>209,035</u> | <u>-</u> | <u>46,387</u> | <u>64,298</u> | <u>319,720</u> |
| Net Assets Held in Trust for Pension Benefits: | <u>\$ 673,240</u> | <u>\$ 18,487</u> | <u>\$ 324,477</u> | <u>\$ 444,943</u> | <u>\$ 1,461,147</u> |

CITY OF ATLANTA, GEORGIA
Pension Trust Funds

Combining Statement of Changes in Plan Net Assets
For the Year Ended December 31, 2003
(In Thousands)

| | Pension Trust Funds | | | | Totals |
|------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------|---------------|---------------------|--------------|
| | General Employees' Defined Benefit | General Employees' Defined Contribution | Firefighters' | Police Officers' | |
| Additions: | | | | | |
| Employer contributions | \$ 40,700 | \$ 5,192 | \$ 13,115 | \$ 19,104 | \$ 78,111 |
| Employee contributions | 10,534 | 6,011 | 2,685 | 4,651 | 23,881 |
| Refunds and other | 86 | - | 73 | 211 | 370 |
| Investment income: | | | | | |
| Net depreciation in fair value of investments | 67,810 | - | 36,134 | 60,222 | 164,166 |
| Investment income | 24,401 | 412 | 7,419 | 12,351 | 44,583 |
| Securities lending income | 177 | - | 154 | 184 | 515 |
| Less: Investment expenses | | | | | |
| Securities lending expenses | - | - | (54) | (64) | (118) |
| Net investment income | 92,388 | 412 | 43,653 | 72,693 | 209,146 |
| Total additions | 143,708 | 11,615 | 59,526 | 96,659 | 311,508 |
| Deductions: | | | | | |
| Benefit payments | 55,838 | 1,390 | 18,238 | 24,733 | 100,199 |
| Refunds | 13,299 | - | 108 | 105 | 13,512 |
| Other | 2,992 | - | 184 | 324 | 3,500 |
| Total deductions | 72,129 | 1,390 | 18,530 | 25,162 | 117,211 |
| Net increase in net assets held in trust for pension benefits | 71,579 | 10,225 | 40,996 | 71,497 | 194,297 |
| Net assets held in trust for pension benefits: | | | | | |
| Beginning of year | 601,661 | 8,262 | 283,481 | 373,446 | 1,266,850 |
| End of year | \$ 673,240 | \$ 18,487 | \$ 324,477 | \$ 444,943 | \$ 1,461,147 |